

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
Accountants' Report and Financial Statements  
May 31, 2011 and 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JAN 18 2012**

**BKD**  
CPAs & Advisors

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
May 31, 2011 and 2010**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners  
East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
Lake Providence, Louisiana

We have audited the accompanying balance sheets of East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital (the Hospital), a component unit of East Carroll Parish, as of May 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital as of May 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**BKD, LLP**

December 22, 2011

**East Carroll Parish Hospital Service District d/b/a  
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Management's Discussion and Analysis  
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***Introduction***

This management's discussion and analysis section of the annual financial report of East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital (the Hospital) presents background information and our analysis of the Hospital's financial performance during the fiscal years that ended on May 31, 2011 and 2010. Please read it in conjunction with the financial statements in this report.

***Financial Highlights***

- The Hospital's total net assets increased by \$533,607 from 2011 to 2010. This was mainly due to an electronic health records incentive payment of approximately \$1.1 million which was partially offset by an increase in operating expenses. The Hospital's total net assets increased by \$370,527 from 2010 to 2009. This was mainly due to increases in cash receipts from patients and third-party payers.
- Cash and cash equivalents decreased by \$450,817 from 2011 to 2010 to meet increased operating expenses of the Hospital. Cash and cash equivalents increased by \$749,945 from 2010 to 2009 due to an increase in cash receipts from patients and third-party payers.
- At the end of the 2011 fiscal year, the assets of the Hospital exceeded liabilities by \$4,425,261 and by \$3,891,654 at the end of fiscal year 2010. Of this amount, \$3,158,799 and \$2,607,168 (unrestricted net assets) may be used to meet ongoing obligations to the Hospital's employees, patients and creditors; while \$1,266,462 and \$1,284,486 at May 31, 2011 and 2010, respectively, are invested in capital assets, net of related debt.

***Overview of this Annual Financial Report***

This annual financial report consists of three components – the independent accountants' report, management's discussion and analysis and the audited financial statements.

The financial statements of the Hospital report the financial position of the Hospital and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net assets. These statements measure the performance of the Hospital's operations over

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the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the statements of cash flows is to provide information about the Hospital's cash flows from operating, investing and financing activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes notes to the financial statements that are essential to gain a full understanding of the information provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

***Financial Analysis of the Hospital***

The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in net assets, are one indicator of the financial state of the Hospital. Other nonfinancial factors that should also be considered include changes in economic conditions, population changes (including uninsured and working poor) and new or changed government legislation.

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**Balance Sheets**

A summary of the Hospital's balance sheets at May 31, 2011, 2010 and 2009 is presented in the following table.

**Table 1: Assets, Liabilities and Net Assets**

	2011	2010	2009	Variance 2011-2010	Variance 2010-2009
<b>Assets</b>					
Current assets	\$3,933,248	\$2,649,120	\$2,277,422	\$ 1,284,128	\$ 371,698
Capital assets, net	1,982,615	2,162,637	1,544,129	(180,022)	618,508
Other assets and assets limited to use	262,120	798,628	828,428	(536,508)	(29,800)
<b>Total assets</b>	<b>\$6,177,983</b>	<b>\$5,610,385</b>	<b>\$4,649,979</b>	<b>\$ 567,598</b>	<b>\$ 960,406</b>
<b>Liabilities</b>					
Current liabilities	\$1,413,095	\$ 992,828	\$ 710,598	\$ 420,267	\$ 282,230
Long-term debt	339,627	725,903	418,254	(386,276)	307,649
<b>Total liabilities</b>	<b>1,752,722</b>	<b>1,718,731</b>	<b>1,128,852</b>	<b>33,991</b>	<b>589,879</b>
<b>Net Assets</b>					
Investment in capital assets, net of related debt	1,266,462	1,284,486	1,086,275	(18,024)	198,211
Unrestricted	3,158,799	2,607,168	2,434,852	551,631	172,316
<b>Total net assets</b>	<b>4,425,261</b>	<b>3,891,654</b>	<b>3,521,127</b>	<b>533,607</b>	<b>370,527</b>
<b>Total liabilities and net assets</b>	<b>\$6,177,983</b>	<b>\$5,610,385</b>	<b>\$4,649,979</b>	<b>\$ 567,598</b>	<b>\$ 960,406</b>

**2011 Highlights**

- Current assets increased in 2011, due primarily to increases in due from third-party payers related to the Upper Payment Limit grant receivable and patient accounts receivable due to a backlog resulting from implementation of the new electronic health records system and the related new clearing house processing.
- Gross capital assets increased \$123,125 during 2011, while depreciation and amortization expense of \$299,446 decreased the capital assets and other assets total. The increase in gross

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capital assets relates to the purchase of equipment as part of a change to an electronic health records system.

- Current liabilities increased in 2011, primarily due to increase in current maturities of long-term debt used to finance the purchase of the electronic health records system, increases in accounts payable and increases in accrued expenses related to accrued vacation pay.

***2010 Highlights***

- Current assets increased in 2010, due primarily to increases in due from third-party payers.
- Gross capital assets increased \$847,410 during 2010, while depreciation and amortization expense of \$266,201 decreased the capital assets and other assets total. This increase related to the purchase of equipment as part of a change to an electronic health records system.
- Current liabilities and long-term debt increased in 2010, primarily as a result of financing the purchase of the new electronic health records system.

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**Summary of Revenues, Expenses and Changes in Net Assets**

The following table presents a summary of the Hospital's revenues, expenses and changes in net assets for each of the fiscal years ended May 31, 2011, 2010 and 2009.

**Table 2: Operating Results and Changes in Net Assets**

	2011	2010	2009	Variance 2011-2010	Variance 2010-2009
<b>Operating Revenues</b>					
Net patient service revenue	\$8,172,695	\$8,911,918	\$7,741,608	\$ (739,223)	\$ 1,170,310
Other operating revenues	1,297,030	67,564	79,921	1,229,466	(12,357)
Total operating revenues	9,469,725	8,979,482	7,821,529	490,243	1,157,953
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	5,341,867	5,186,167	5,060,658	155,700	125,509
Supplies and other	3,637,871	3,510,929	3,366,225	126,942	144,704
Depreciation and amortization	299,446	266,201	283,327	33,245	(17,126)
Loss on sale of assets	6,784	-	-	6,784	-
Total operating expenses	9,285,968	8,963,297	8,710,210	322,671	253,087
<b>Operating Income (Loss)</b>	183,757	16,185	(888,681)	167,572	904,866
<b>Nonoperating Revenues, Net</b>	349,850	354,342	306,706	(4,492)	47,636
<b>Increase (Decrease) in Net Assets</b>	\$ 533,607	\$ 370,527	\$ (581,975)	\$ 163,080	\$ 952,502

**Operating Revenues**

During fiscal year 2011 and 2010, the Hospital derived 86% and 99%, respectively, of its total operating revenues from net patient service revenue. Such revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Hospital's facilities. Approximately 70% of the Hospital's gross patient service revenue was rendered under contracts with Medicare and Medicaid for 2011, compared to approximately 73% for 2010. Approximately 73% of the Hospital's gross patient service revenue was rendered under contracts with Medicare and Medicaid for 2010, compared to approximately 57% for 2009.



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***Operating and Financial Performance***

***2011 Highlights***

- During 2011, the Hospital had patient days and admissions of 2,525 and 1,000, respectively. This was a decrease of 80 inpatient days, or 3% from 2010 levels. Admissions decreased in 2011 by 24, or 2%.
- Net patient service revenue decreased 8.3% from 2011 to 2010. The decrease in net patient service revenue is primarily due to an overall increase in the provision for uncollectible accounts of approximately \$800,000 in 2011, which reduces net patient service revenue.
- Other operating revenues increased approximately \$1,229,000, which included the first Medicaid electronic health records incentive payment of approximately \$1.1 million.
- Operating expenses were up 3.6% from 2011 to 2010. This was due to an increase in expenses across the board, mainly due to expenses in all departments related to implementing the new electronic health records technology. Depreciation expense also increased due to the addition of this equipment.

***2010 Highlights***

- During 2010, the Hospital had patient days and admissions of 2,605 and 1,024, respectively. This was a decrease of 385 inpatient days, or 13% from 2009 levels. Admissions decreased in 2010 by 43, or 4%.
- Net patient service revenue increased in 2010. The increase in net patient service revenue is primarily due to an overall decrease in the provision for uncollectible accounts which reduces net patient service revenue.
- Operating revenues were up 14.9% from 2010 to 2009. This was due to a decrease in the provision for uncollectible accounts and better than expected collections on patient accounts.
- Operating expenses were up 2.8% from 2010 to 2009. This was mainly due to normal increases in salaries and wages and employee benefits and increases in insurance expenses and Rural Health Coalition dues.

***Economic Factors and Next Year's Budget***

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and management considered many factors when setting the fiscal year 2012 budget. While the financial outlook for the Hospital is improving, of primary importance in setting the 2012 budget was the

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status of the economy and the health care environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes
- Medicaid reimbursement changes, as well as the continuation at the current level of Disproportionate Share and Upper Payment Limit Programs
- Recovery Audit Contractor (RAC) audits
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce shortages, primarily in nursing and other clinically skilled positions and related employee costs
- Compliance with meaningful use of electronic health records equipment

***Contacting the Hospital Financial Manager***

This annual financial report is designed to provide our citizens, patients and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact Ladonna Englerth, Hospital Administrator, at East Carroll Parish Hospital, 336 North Hood Street, Lake Providence, Louisiana 71254-2194 or by phone at 318.559.4023.

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**Balance Sheets  
May 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 372,851	\$ 823,668
Patient accounts receivable, net of allowance for uncollectibles of \$3,016,000 and \$1,429,000 in 2011 and 2010, respectively	1,902,873	1,115,157
Estimated amounts due from third-party payers	1,368,406	458,034
Inventories	167,690	155,173
Prepaid expenses	<u>121,428</u>	<u>97,088</u>
Total current assets	<u>3,933,248</u>	<u>2,649,120</u>
<b>Capital Assets, Net</b>	<u>1,982,615</u>	<u>2,162,637</u>
<b>Other Assets</b>	<u>13,356</u>	<u>14,119</u>
<b>Assets Limited As To Use</b>	<u>248,764</u>	<u>784,509</u>
Total assets	<u><u>\$ 6,177,983</u></u>	<u><u>\$ 5,610,385</u></u>

*See Notes to Financial Statements*

	<u>2011</u>	<u>2010</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 376,526	\$ 152,248
Accounts payable	419,180	341,640
Accrued expenses	<u>617,389</u>	<u>498,940</u>
Total current liabilities	1,413,095	992,828
<b>Long-term Debt</b>	<u>339,627</u>	<u>725,903</u>
Total liabilities	<u>1,752,722</u>	<u>1,718,731</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,266,462	1,284,486
Unrestricted	<u>3,158,799</u>	<u>2,607,168</u>
Total net assets	<u>4,425,261</u>	<u>3,891,654</u>
Total liabilities and net assets	<u>\$ 6,177,983</u>	<u>\$ 5,610,385</u>

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended May 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$2,560,000 2010 - \$1,758,000	\$ 8,172,695	\$ 8,911,918
Electronic health records incentive payment	1,141,489	-
Other	<u>155,541</u>	<u>67,564</u>
Total operating revenues	<u>9,469,725</u>	<u>8,979,482</u>
<b>Operating Expenses</b>		
Salaries and wages	4,511,729	4,439,021
Supplies and other	3,637,871	3,510,929
Employee benefits	830,138	747,146
Depreciation and amortization	299,446	266,201
Loss on sale of assets	<u>6,784</u>	<u>-</u>
Total operating expenses	<u>9,285,968</u>	<u>8,963,297</u>
<b>Operating Income</b>	<u>183,757</u>	<u>16,185</u>
<b>Nonoperating Revenues (Expenses)</b>		
Parish subsidy	360,323	343,535
Interest income	5,198	5,969
Interest expense	(43,328)	(24,171)
Noncapital grant	<u>27,657</u>	<u>29,009</u>
Total nonoperating revenues	<u>349,850</u>	<u>354,342</u>
<b>Increase in Net Assets</b>	533,607	370,527
<b>Net Assets, Beginning of Year</b>	<u>3,891,654</u>	<u>3,521,127</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,425,261</u>	<u>\$ 3,891,654</u>

**East Carroll Parish Hospital Service District d/b/a  
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**Statements of Cash Flows  
Years Ended May 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Receipts from patients and third-party payers	\$ 6,627,065	\$ 9,331,308
Payments to suppliers	(3,473,226)	(3,284,814)
Payments to employees	(5,347,380)	(5,216,279)
Electronic health records incentive payment	1,141,489	-
	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) operating activities	<u>(1,052,052)</u>	<u>830,215</u>
<b>Capital and Related Financing Activities</b>		
Purchases of capital assets	(123,125)	(375,175)
Interest payments on long-term debt	(43,328)	(24,171)
Transfer to bond reserve and contingency funds	763	(2,316)
Principal payments on long-term debt	(161,998)	(52,237)
	<u>                    </u>	<u>                    </u>
Net cash used in capital and related financing activities	<u>(327,688)</u>	<u>(453,899)</u>
<b>Noncapital Financing Activities</b>		
Grant proceeds received	27,657	29,009
Parish subsidy received	360,323	343,535
	<u>                    </u>	<u>                    </u>
Net cash provided by noncapital financing activities	<u>387,980</u>	<u>372,544</u>
<b>Investing Activities</b>		
(Increase) decrease in assets limited as to use	535,745	(4,884)
Interest on investments	5,198	5,969
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities	<u>540,943</u>	<u>1,085</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(450,817)</u>	<u>749,945</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>823,668</u>	<u>73,723</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 372,851</u>	<u>\$ 823,668</u>

**East Carroll Parish Hospital Service District d/b/a  
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Statements of Cash Flows (Continued)  
Years Ended May 31, 2011 and 2010**

**Reconciliation of Net Operating Revenues (Expenses) to  
Net Cash Provided by (Used in) Operating Activities**

Operating income	\$ 183,757	\$ 16,185
Depreciation and amortization	299,446	266,201
Loss on sale of assets	6,784	-
Changes in operating assets and liabilities		
Patient accounts receivable	(787,716)	714,820
Amounts due to and from third-party payers	(910,372)	(362,994)
Inventories	(12,517)	(3,421)
Prepaid expenses	(27,423)	29,842
Accounts payable and accrued expenses	<u>195,989</u>	<u>169,582</u>
Net cash provided by (used in) operating activities	<u>\$ (1,052,052)</u>	<u>\$ 830,215</u>

**Supplemental Cash Flows Information**

Note payable obligation incurred for equipment	\$ -	\$ 472,534
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**East Carroll Parish Hospital Service District d/b/a  
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**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital (the Hospital) primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in East Carroll Parish, Louisiana. The Hospital is a governmental acute care hospital located in Lake Providence, Louisiana. It was created by the East Carroll Parish Police Jury. The Policy Jury appoints the Board of Commissioners of the Hospital. The Hospital is considered a political subdivision of the State of Louisiana and a component unit of East Carroll Parish.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and parish appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as parish appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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**Notes to Financial Statements  
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***Cash and Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit.

***Deposits and Investments***

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in (1) direct obligations of the United States Government pledged by its full faith and credit, (2) certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral and (3) savings accounts at savings and loan associations and banks to the extent fully insured.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Inventories***

Laboratory and supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

***Capital Assets***

Property, buildings and equipment are stated at cost. Donated property, buildings and equipment are recorded at fair value at the date of donation, which then is treated as cost. The cost of additions and improvements, which substantially extend the useful life of a particular asset, is capitalized. Expenditures for maintenance and repairs are charged to expenses.

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term, or the estimated useful life of the equipment. Such amortization is included in depreciation in the accompanying financial statements.

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**Notes to Financial Statements  
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The following estimated useful lives are used in computing depreciation:

Buildings and improvements	20-40 years
Furniture and equipment	5-20 years
Transportation equipment	4-8 years

***Compensated Absences***

Hospital policies permit most employees to accumulate vacation leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Compensated absences are expected to be paid during the next year.

***Net Assets***

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

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**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Medicaid Electronic Health Record (EHR) Incentive***

Under the Health Information Technology for Economic and Clinical Health Act (HITECH), Medicaid incentive payments are available to hospitals when they adopt EHRs and demonstrate use in ways that can improve quality, safety and effectiveness of care. Louisiana Medicaid providers can receive their first incentive payment for attesting they have adopted, implemented and/or upgraded to certified EHR technology. In order to qualify in subsequent years, providers must attest to demonstrating meaningful use.

The total Medicaid incentive is paid over four years. The payment amount is based on historical and projected Medicaid discharges. The scheduled payout of the total incentive is 50% in the first year, 30% in the second year and 10% in the third and fourth years. Future payments are contingent upon the Hospital meeting certain compliance elements annually and may or may not occur in consecutive fiscal years. The Hospital has until May 31, 2016, to qualify for its final scheduled payment.

Medicaid incentive payments are recognized as revenue when the Hospital is reasonably assured it has met all compliance elements required to earn an incentive payment. The Hospital earned its first payment during fiscal year 2011. Compliance with the required elements of Medicaid incentive payments is subject to audit by the federal government or its designee and amounts recognized to date are subject to change.

***Income Taxes***

As a political subdivision of the State of Louisiana, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

**Note 2: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At May 31, 2011 and 2010, the Hospital's bank balances were exposed to custodial credit risk as follows:

	<u>2011</u>	<u>2010</u>
Insured (by FDIC)	\$ 374,340	\$ 373,465
Collateralized by securities held by the pledging financial institution's Trust Department in the Hospital's name	368,983	1,281,059
Uninsured and uncollateralized	<u>-</u>	<u>-</u>
Total depository balance	<u>\$ 743,323</u>	<u>\$ 1,654,524</u>
Carrying value	<u>\$ 634,971</u>	<u>\$ 1,619,213</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 372,851	\$ 823,668
Other assets	13,356	11,036
Assets limited as to use	<u>248,764</u>	<u>784,509</u>
	<u>\$ 634,971</u>	<u>\$ 1,619,213</u>

The financial institutions holding the Hospital's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. Effective July 21, 2010, the FDIC's insurance limits were permanently set at \$250,000.

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

**Note 3: Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

*Medicare* - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid* - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per diem rate. Outpatient services are reimbursed at a percentage of cost, with final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Approximately 70% and 73% of gross patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended May 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at May 31, 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 1,682,864	\$ 1,035,827
Medicaid	923,553	210,817
Other third-party payers	221,907	249,554
Patients	<u>2,090,549</u>	<u>1,047,752</u>
	4,918,873	2,543,950
Less allowance for uncollectible accounts	<u>(3,016,000)</u>	<u>(1,428,793)</u>
	<u><u>\$ 1,902,873</u></u>	<u><u>\$ 1,115,157</u></u>

**Note 5: Due from Third-party Payers**

A summary of amounts due from third-party payers follows.

	<u>2011</u>	<u>2010</u>
Due from Medicare Program, net	\$ 110,355	\$ 127,550
Due from Louisiana Medicaid Program, net	<u>1,258,051</u>	<u>330,484</u>
	<u><u>\$ 1,368,406</u></u>	<u><u>\$ 458,034</u></u>
Provision for estimated future third-party retroactive adjustments	<u><u>\$ (175,000)</u></u>	<u><u>\$ (185,000)</u></u>

Revenue from the Medicare and Medicaid programs accounted for a significant portion of the Hospital's net patient revenue for the years ended May 31, 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The provision for estimated future retroactive adjustments is based on management's estimates. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

The 2011 net patient service revenue did not change due to retroactive adjustments by Medicare and Medicaid in excess of amounts previously estimated and decreased by \$10,000 due to the decrease of the provision for estimated future third-party retroactive adjustments for the open cost report years 2008 through 2011.

The 2010 net patient service revenue did not change due to retroactive adjustments by Medicare and Medicaid in excess of amounts previously estimated and increased by \$35,000 due to the decrease of the provision for estimated future third-party retroactive adjustments for the open cost report years 2008 through 2010.

**Note 6: Capital Assets**

Capital assets activity for the years ended May 31, 2011 and 2010 was:

	2011		
	Beginning Balance	Additions	Ending Balance
Capital assets not being depreciated			
Land	\$ 22,000	\$ -	\$ 22,000
Construction in progress	31,839	-	31,839
	<u>53,839</u>	<u>-</u>	<u>53,839</u>
Capital assets being depreciated			
Hospital buildings and improvements	1,677,138	-	1,677,138
Equipment	2,036,061	106,502	2,090,211
Transportation equipment	393,027	7,408	394,307
Clinic building and equipment	509,396	9,215	502,698
	<u>4,615,622</u>	<u>123,125</u>	<u>4,664,354</u>
Less accumulated depreciation			
Buildings and improvements	905,318	52,828	958,146
Equipment	1,011,477	190,409	1,149,879
Transportation equipment	354,003	25,947	374,587
Clinic building and equipment	236,026	27,179	252,966
	<u>2,506,824</u>	<u>296,363</u>	<u>2,735,578</u>
Capital assets, net	<u>\$ 2,162,637</u>	<u>\$ (173,238)</u>	<u>\$ 1,982,615</u>

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 22,000	\$ -	\$ -	\$ 22,000
Construction in progress	31,540	299	-	31,839
	<u>53,540</u>	<u>299</u>	<u>-</u>	<u>53,839</u>
Capital assets being depreciated				
Hospital buildings and improvements	1,677,138	-	-	1,677,138
Equipment	1,210,759	825,302	-	2,036,061
Transportation equipment	393,027	-	-	393,027
Clinic building and equipment	487,288	22,108	-	509,396
	<u>3,768,212</u>	<u>847,410</u>	<u>-</u>	<u>4,615,622</u>
Less accumulated depreciation				
Buildings and improvements	847,232	58,086	-	905,318
Equipment	946,680	64,797	-	1,011,477
Transportation equipment	279,253	74,750	-	354,003
Clinic building and equipment	204,458	31,568	-	236,026
	<u>2,277,623</u>	<u>229,201</u>	<u>-</u>	<u>2,506,824</u>
Capital assets, net	<u>\$ 1,544,129</u>	<u>\$ 618,508</u>	<u>\$ -</u>	<u>\$ 2,162,637</u>

**Note 7: Assets Limited as to Use**

Assets limited as to use include investments in insured savings accounts and certificates of deposit which are held by the Hospital or its agent in the Hospital's name. The use of these funds is internally restricted by the Board. The Board has passed a resolution to reserve up to \$1.8 million for replacement of fixed assets. As of May 31, 2011, the Hospital has on hand \$248,764. The Hospital used a portion of these funds during the year ended May 31, 2011, to pay down debt related to the electronic health records purchase.



**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

**Note 8: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at May 31 consisted of:

	<u>2011</u>	<u>2010</u>
Payable to suppliers and contractors	\$ 459,102	\$ 366,499
Payable to employees (including payroll taxes benefits)	411,330	288,887
Other	<u>166,137</u>	<u>185,194</u>
	<u><u>\$ 1,036,569</u></u>	<u><u>\$ 840,580</u></u>

**Note 9: Long-term Debt**

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Hospital Revenue Bond to the United States of America, at 4.125%, payable in monthly installments of \$1,902, including principal and interest, final payment due August 2025, secured by pledge of Hospital revenues.	\$ 245,245	\$ 257,674
Note payable to individual, at 6%, payable in monthly installments of \$3,053, including principal and interest, final payment due in July 2015, collateralized by real estate.	136,682	164,326
Note payable to software company, interest imputed at 5%, payable in monthly installments of \$11,063, including principal and interest, balloon payment due in December 2011, collateralized by equipment.	<u>334,226</u>	<u>456,151</u>
	716,153	878,151
	<u>(376,526)</u>	<u>(152,248)</u>
Less current portion	<u><u>\$ 339,627</u></u>	<u><u>\$ 725,903</u></u>

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

Debt service requirements as of May 31, 2011, are as follows:

<b>Year Ending May 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 376,526	\$ 26,057	\$ 402,583
2013	44,654	14,807	59,461
2014	47,143	12,318	59,461
2015	49,775	9,686	59,461
2016	23,242	7,599	30,841
2017-2021	86,534	27,586	114,120
2022-2026	88,279	8,057	96,336
	<u>\$ 716,153</u>	<u>\$ 106,110</u>	<u>\$ 822,263</u>

A schedule of activity in the Hospital's long-term debt balance is as follows:

	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$ 878,151	\$ 457,854
Additions	-	472,534
Repayments	(161,998)	(52,237)
Balance at end of year	<u>\$ 716,153</u>	<u>\$ 878,151</u>

**Note 10: Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements**

**Years Ended May 31, 2011 and 2010**

experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 11: Charity Care**

Charges excluded from revenue under the Hospital's charity care policy were \$342,240 and \$327,776 for 2011 and 2010, respectively.

**Note 12: Retirement Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by an unrelated third party. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contributions made by plan members and the Hospital aggregated \$76,146 and \$28,528 during 2011 and \$35,328 and \$24,781 during 2010, respectively.

**Note 13: Parish Subsidy**

The Hospital received a subsidy from the Parish totaling \$360,323 and \$343,535 for 2011 and 2010, respectively.

The parish subsidy represents property taxes collected for the benefit of the Hospital. Use of the subsidy is unrestricted.

**Note 14: Risks and Uncertainties**

***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which, in some cases, have resulted in constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital**

**A Component Unit of East Carroll Parish**

**Notes to Financial Statements  
Years Ended May 31, 2011 and 2010**

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the nation and the state may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for uncollectible receivables that could negatively impact the Hospital.

***Admitting Physicians***

The Hospital is served by two physicians whose patients comprised a majority of the Hospital's admissions for the years ended May 31, 2011 and 2010.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed  
in Accordance with Government Auditing Standards**

Board of Commissioners  
East Carroll Parish Hospital Service District dba  
East Carroll Parish Hospital  
Lake Providence, Louisiana

We have audited the financial statements of East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital (the Hospital), a component unit of East Carroll Parish, as of and for the year ended May 31, 2011, and have issued our report thereon dated December 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-01 and 2011-02 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-03.

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated December 22, 2011.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Hospital's Board of Commissioners, management and the Office of the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

**BKD, LLP**

December 22, 2011

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
Schedule of Findings and Responses  
Year Ended May 31, 2011**

Reference Number	Finding
2011-01	<p><b>Criteria or Specific Requirement</b> - Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p><b>Condition</b> - The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related footnote disclosures.</p> <p><b>Context</b> - Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the Hospital's internal control structure and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not otherwise include procedures for the preparation of external financial statements.</p> <p><b>Effect</b> - Potentially material misstatements in the financial statements and related footnote disclosures could occur and not be prevented or detected by the Hospital's internal control structure.</p> <p><b>Cause</b> - The Hospital has not designed internal control procedures for preparing external financial statements.</p> <p><b>Recommendation</b> - Management should continue to assess the cost versus the benefits of improving internal controls over financial reporting.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management will continue to consider the costs versus benefits of improving controls over financial statement preparation.</p>
2011-02	<p><b>Criteria or Specific Requirement</b> - Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p><b>Condition</b> - Limited separation of functions exist within the accounting and billing system, creating multiple conflicting duties. The administrator and accountant have conflicting duties within the cash disbursements and payroll cycles.</p> <p><b>Effect</b> - Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p>

**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
Schedule of Findings and Responses  
Year Ended May 31, 2011**

Reference Number	Finding
	<p><b>Cause</b> - Due to limitations of the Hospital's small accounting staff, duties in the cash disbursements, payroll and revenue cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p><b>Recommendation</b> - Management should periodically evaluate the cost versus the benefits of developing internal control procedures or other compensating controls over the functional accounting areas and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Hospital is limited in accounting staff. The Hospital will be willing to discuss any segregation of duties/internal control procedures that pose an immediate need and correct as soon as possible.</p>
2011-03	<p><b>Criteria or Specific Requirement</b> - Management is responsible for completing the audit within six months of year-end in accordance with LSA-RS 23:513.</p> <p><b>Condition</b> - The Hospital did not comply with state code.</p> <p><b>Context</b> - Political subdivisions of the State of Louisiana should comply with relevant state code.</p> <p><b>Effect</b> - Noncompliance with state code.</p> <p><b>Cause</b> - The Hospital converted to a new electronic health record system which delayed obtaining the necessary data for timely completion of the May 31, 2011 audit.</p> <p><b>Recommendation</b> - Management should strive to timely obtain the information needed to complete the financial statements.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management concurs with finding and will work to obtain information required for the audit in a timely manner. The Hospital submitted and received an extension to file their audit report by December 31, 2011.</p>



**East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
A Component Unit of East Carroll Parish  
Summary Schedule of Prior Audit Findings  
Year Ended May 31, 2011**

<b>Reference Number</b>	<b>Summary of Findings</b>	<b>Status</b>
2010-01	The Hospital relies on its outside auditors to assist in the preparation of external financial statements and related footnote disclosures. (2007)	Not corrected. Management continues to assess the cost versus the benefit of improving internal controls over financial statement preparation. (See 2011-01)
2010-02	The Hospital did not reconcile the accounts payable subsidiary ledger to the general ledger at year-end. (2009)	Fully corrected. Accounts payable subsidiary ledger was reconciled to the general ledger at year-end.
2010-03	Limited separation of functions exists within the accounting system, creating multiple conflicting duties. The administrator and accountant have conflicting duties within the cash disbursement cycle. (2009)	Not corrected. The Hospital is limited in accounting staff. The Hospital is willing to address any segregation of duties/internal control procedures that pose an immediate need and correct as soon as possible. (See 2011-02)
2010-04	The Hospital did not comply with state code in completing the audit within six months of year-end in accordance with LSA-RS 23:513. (2010)	Not corrected. The Hospital converted to a new electronic health record system which delayed obtaining the necessary data for timely completion of the audit. The Hospital submitted and received an extension to file their audit report by December 31, 2011. (See 2011-03)

Board of Commissioners  
East Carroll Parish Hospital Service District d/b/a  
East Carroll Parish Hospital  
Lake Providence, Louisiana

As part of our audit of the financial statements of East Carroll Parish Hospital Service District d/b/a East Carroll Parish Hospital (the Hospital) as of and for the year ended May 31, 2011 we wish to communicate the following to you.

## **Audit Scope and Results**

### ***Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in Government Auditing Standards Issued by the Comptroller General of the United States***

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### ***Qualitative Aspects of Significant Accounting Policies and Practices***

#### ***Significant Accounting Policies***

The Hospital's significant accounting policies are described in Note 1 of the audited financial statements.

***Alternative Accounting Treatments***

No matters are reportable.

***Management Judgments and Accounting Estimates***

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following area involves a significant area of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for uncollectible accounts

***Financial Statement Disclosures***

No matters are reportable.

***Audit Adjustments***

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

***Proposed Audit Adjustments Recorded***

- Inventory
- Accrued liability for payroll
- Accrued liability for PTO (paid time off)
- Allowance for uncollectible accounts
- Fixed assets
- Notes payable
- Prepaid expenses
- Upper Payment Limit (UPL) receivable

***Proposed Audit Adjustments Not Recorded***

No matters are reportable.

### ***Auditor's Judgments About the Quality of the Entity's Accounting Principles***

No matters are reportable.

### ***Other Material Written Communications***

Listed below is another material written communication between management and us related to the audit:

- Management representation letter (attached)

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of the Hospital as of and for the year ended May 31, 2011, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies or material weaknesses.

### ***Material Weaknesses***

Refer to the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

### ***Deficiencies***

Segregation of duties is an essential element of internal controls involving the separation of custody of assets from related recording and monitoring of transactions. To reduce the possibility of errors or fraud going undetected in the normal course of business, we encourage you to limit, to the extent possible, performance of incompatible duties. As noted, management has implemented certain compensating controls so that this item is considered a control deficiency and not a material weakness or significant deficiency. We recommend management continue to evaluate the cost benefit of these limitations on segregation of duties.

- The billing clerk has the ability to admit patients, receive payments, generate a bill and apply payments to patients' accounts, giving her both access and recording responsibilities.
- The business office manager has access to cash and has recording responsibilities to patients' accounts.

### ***Management's Response and Corrective Action Plan***

We agree with the recommendation and will continue to evaluate the cost/benefit of further segregation of duties, although a complete segregation of duties may not be practical at this time.

### ***Other Matters***

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and

procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

### ***Evidence of Review of Reconciliations and Nonstandard Journal Entries***

The Hospital has review processes in place for bank reconciliations, accounts payable reconciliations, accounts receivable reconciliations and journal entries. However, there is no formal evidence of review of these reconciliations or journal entries. BKD recommends, at least monthly, that these reconciliations and journal entries have formal review and approval by the Hospital Administrator.

#### ***Management's Response and Corrective Action Plan***

With our new computer system, many of the reconciliations are viewed on-screen so there is no evidence of review. However, going forward, the Administrator will evidence her review and approval of reconciliations and journal entries by initialing a printed copy or by email documentation.

### ***Petty Cash Count***

The Hospital's petty cash account was not reconciled on the date of our surprise petty cash. BKD recommends the Hospital reconcile the petty cash account regularly to prevent possible misappropriation of funds.

#### ***Management's Response and Corrective Action Plan***

We currently have daily reconciliation procedures in place for petty cash. These procedures will be reviewed with the staff to ensure the controls are operating as intended. In addition, the Administrator or Business Office Manager will perform a monthly surprise cash count.

### **Prior Year's Other Matters**

#### ***Updating the Charge Master***

BKD recommended management consider updating the charge master.

#### ***Management's Response and Corrective Action Plan***

Management updated the charge master during fiscal year 2011.

***Status***

Resolved

***Current Economic Environment***

Due to the protracted economic decline, we recommended management and the Board of Commissioners vigilantly monitor and manage hospital operations.

***Management's Response and Corrective Action Plan***

Management acknowledged they were aware of the difficult circumstances presented by the protracted economic decline and acknowledged they and the Board were solely responsible for all aspects of managing the Hospital.

***Status***

Resolved

Management's written responses to the deficiencies and other matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management and the Board of Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

December 22, 2011